Should You Buy Chemtrade Logistics Stock for its 7.3% Dividend Yield?

Description

The selloff in the stock markets has driven dividend yields of companies higher in 2022. A company's forward yield is inversely related to its stock price. For example, if a stock is priced at $100 and pays investors a dividend of $5 per share annually, it has a yield of 5%. Now, if the stock falls to $80, its forward yield will increase to 6.25%.

But a high dividend yield should not be the sole criteria for purchasing a stock. It's important to analyze the company's fundamentals and several other ratios before you buy a dividend stock. Let's see if **Chemtrade Logistics Income Fund** (TSX:CHE.UN) is a buy, given it offers investors a forward yield of 7.3%.

An overview of Chemtrade Logistics Income Fund

Chemtrade Logistics Income Fund provides industrial chemicals and services, which is essential to industries such as gasoline, motor oil, metals, paper, and water treatment. The company was listed on the TSX back in 2001, and it has since expanded via a combination of strategic acquisitions and organic growth, widening its base of enterprise customers in the process.

It has a diversified base of clients and benefits from a vast logistical network, technical expertise, and robust product development efforts.

Chemtrade operates in multiple high-demand verticals. For instance, its products help the cleaning and purification of drinking water. These products are also used to nourish crops and contribute to the production of pulp and paper items.

Over the years, Chemtrade has focused on reducing commodity and market risks through risk-sharing contracts and expansion of customers.

Chemtrade stock is priced at $8.15, valuing the company at a market cap of $915 million. It pays investors a monthly dividend of $0.05 per share, translating to a forward yield of 7.3%. So, an investment of $5,000 in Chemtrade stock will allow you to generate $365 in annual dividend payouts.

Is Chemtrade Logistics stock a buy?

Analysts trading Chemtrade stock expect its sales to increase from $1.37 billion in 2021 to $1.65 billion in 2023. Its bottom line is forecast to improve to adjusted earnings of $0.34 per share in 2023 compared to a loss of $0.96 per share in 2021.

While the stock is reasonably priced, it has grossly underperformed the broader markets in the last decade. Chemtrade shares have declined by 50% in the last 10 years. After accounting for dividends, total returns are still around 10.7% since September 2012. Comparatively, the TSX has returned 120% in dividend-adjusted returns in the last decade.

Despite being part of a defensive sector, Chemtrade had to slash its dividend payout by 50% amid the COVID-19 pandemic. It had paid investors a monthly dividend of $0.10 per share until February 2020. Further, its payouts have not increased in the last 30 months.

In the last 12 months, the company’s payout ratio has stood at 47%, which is quite impressive. Further, it also has a sustainable debt-to-EBITDA (earnings before interest, tax, depreciation, and amortization) multiple of 3.2.

Analysts remain bullish on Chemtrade Logistics stock and have a 12-month average price target of $10.89, indicating an upside potential of over 30%. After accounting for its tasty dividend yield, total returns will be closer to 40%.

Despite its low valuation, Chemtrade stock is a high-risk bet given its tepid performance as a publicly listed company. I believe there are far better stocks you can invest in right now.

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